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A Temporal Comparison of Sources of Variability in Farm Household Income

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"A Temporal Comparison of
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By Ashok K. Mishra and
Hisham S. El-Osta

For more information, contact

Ashok K. Mishra
amishra@ers.usda.gov or
Hisham S. El-Osta
helosta@ers.usda.gov

<http://www.ers.usda.gov>

Fluctuations in farm income

have important secondary effects on agribusiness firms, creditors, and communities serving farmers. When agricultural surpluses (and lower prices) have occurred, Government programs (like the deficiency payments, eliminated in the 1996 Farm Act) tempered price and income adjustments. As prices fell, deficiency payments increased, providing some income stability to farmers.

Agricultural risk management strategies (like deficiency payments) may have only a limited effect on farm households, however, if their farm income constitutes only a small part of their total household income. This study, based on data from 1995 and 1999, examines how much of the variability in total farm household income can be attributed to variability in net farm income and variability in off-farm income sources (such as income from off-farm business, wages and salaries, interest and dividends, and other off-farm income). Comparisons are also made between participants and non-participants in Federal commodity programs. Using a normalized variance decomposition approach and data from the Agricultural Resource Management Survey (ARMS), the authors show that variability in the total income of participating households originates primarily from farming, particularly for large and very large farms and for farms outside of the Northeast. The major source of income variability for non-participating households is income from off-farm sources. This is especially the case for cash grain and "other livestock" producers, small and mid-size farms, and farms located in the South.

